PIPER

Top quartile commingled special equity funds

3-month returns

	%
First City Nat'l Houston (G-1)	15.6
Connecticut Nat'l Bank (Sup.)	13.9
First Wis. Asset (Emerg. gro.)	12.3
Merchants Nat'l, Pa.	12.2
Centerre Trust (Coll. P-1), Mo.	10.8
Texas Commerce	10.7
Norwest Bank (Sp. invt.), Minn.	10.6
Ameritrust (Tech.), Ohio	10.5
Morgan Guaranty (Sup. opp.)	10.4
Fidelity Mgmt. Trust (Small gro.)	1.4
First Pennsylvania Bank	10.0
Society Nat'l (Central value), Ohio	9.9
EF Hutton (5), Del.	9.9
Fidelity Mgmt. Trust (Agg.), Mass.	9.8
CIGNA (Emerg. gro.), Conn.	9.6
Assoc. Bank Neenah (Cap.appre.)	9.2
California First Bank (Sup.)	9.1
First Tennessee Memphis	8.8
Chase Manhattan (Value), N.Y.	8.8
Second Nat'l (Emp. gro.), Ohio	8.7
Ameritrust (Growth), Ohio	8.7
Lincoln Nat'l (Emerg.), Ind.	8.6
Old Second Nat'l (HR 10), Ill.	8.5
Russell 2000	**7.0**
Standard & Poor's	**6.7**

1-year returns

	%
First RepublicBank (Select)	29.0
Lincoln Nat'l (Emerg.), Ind.	27.3
First City Nat'l Houston (G-1)	24.6
EF Hutton (5), Del.	12.6
Society Nat'l (Central value), Ohio	11.9
First Wis. Asset (Emerg. gro.)	11.6
Connecticut Nat'l Bank (Supp.)	11.5
Assoc. Bank Neenah (Cap.appre.)	10.3
Liberty Nat'l (Growth), Ky.	9.4
Morgan Guaranty (Sup. opp.), N.Y.	9.0
First Chicago (Inst.)	8.6
First Trust, Minn.	8.3
First of Minneapolis (20)	7.3
First Wis. Asset (Growth)	6.9
Equitable Capital (Tangible asset)	6.6
Crestar Bank	5.3
Provident Capital, Pa.	4.8
Fidelity Mgmt. (Small gro.), Mass.	4.8
First Interstate Arizona (Personal)	4.2
Society Nat'l (Ohio reg.), Ohio	3.7
LaSalle Nat'l (Small cap.), Ill.	3.5
Centerre Trust (P-1), Mo.	3.3
First Wachovia (Div. sp. value)	3.2
Standard & Poor's	**6.9**
Russell 2000	**6.5**

3-year returns

	%
First RepublicBank (Select)	50.9
EF Hutton (Emerg. B), Del.	40.8
EF Hutton (Growth B), Del.	36.2
Assoc. Bank Neenah (Reg.), Wis.	23.7
Equitable Capital (Tangible asset)	23.4
First City Nat'l Houston (G-1)	22.5
Central Fidelity (Agg.), Va.	21.8
Society Nat'l (Ohio reg.), Ohio	21.0
Society Nat'l (Central value), Ohio	20.9
Connecticut Nat'l Bank (Sup.)	20.7
Fidelity Mgmt. (Agg.), Mass.	20.4
EF Hutton (5), Del.	20.4
Security Pacific (Growth G), Calif.	20.4
California First Bank (Supp.)	20.3
Norwest Bank (Sp. invt.), Minn.	19.8
Putnam Fiduciary (Putnam gro.)	19.6
Harris Trust (Sp. cap.), Ill.	19.3
Chase Manhattan (Inter. cap.)	18.5
Morgan Guaranty (Sup. opp.)	18.3
First Trust, Minn.	18.2
First of Minneapolis (20)	18.2
Standard & Poor's	**16.6**
Russell 2000	**10.5**

5-year returns

	%
First RepublicBank (Select)	38.8
Equitable Capital (Tangible asset)	18.4
Union Labor Life (SA A), D.C.	16.7
Fidelity Mgmt. (Agg.), Mass.	16.3
Society Nat'l (Ohio reg.), Ohio	16.2
First of Minneapolis (20)	15.6
Assoc. Bank Neenah (Inc.), Wis.	15.2
Standard & Poor's	**14.6**
Citicorp (Real estate), N.Y.	14.0
LaSalle Nat'l (Small cap.), Ill.	13.8
First Wachovia (Div. sp. value)	13.6
First Wis. Asset (Growth)	13.0
Morgan Guaranty (Supp. opp.)	12.9
Trust Co. of the West, Calif.	12.6
First Trust, Minn.	12.6
Melion Equity Assoc.	12.5
Old Second Nat'l (HR 10), Ill.	12.5
Oregon Bank (Agg. gro.)	12.5
Russell 2000	**6.2**

10-year returns

	%
California First Bank (Sup.)	25.7
MTrust (Growth), Texas	22.3
Norwest Bank (Sp. invt.), Minn.	21.9
Connecticut Bank (Emp. sup.)	20.6
Bank of America (Cit.), Calif.	20.2
Chase Manhattan (Inter. cap.)	20.1
Citicorp (Sp. value), N.Y.	20.0
Union Labor Life (SA A), D.C.	19.3
Standard & Poor's	**16.4**

Commingled International

3-month returns

	%
PCM Int'l (Global yield), N.J.	4.0
Principal Mutual (Stock SA), Iowa	2.7
CIGNA (Eq.), Conn.	1.8
Provident Capital (Low p/e), Pa.	1.1
PCM Int'l (Print eq.), N.J.	0.8
MSCI World Index	**1.0**
Wells Fargo (Eq.), Calif.	1.2
First Chicago (Eq.), Ill.	1.2
California First (Invt. eq.)	1.2
Wellington Trust (Stock), Mass.	1.2
Bankers Trust (Eq.), N.Y.	1.3
PCM Int'l (Global bond), N.J.	1.6
Confederation Life (Stock), Ga.	2.1
Putnam Fiduciary (Trust)	2.2
Chase Manhattan (Global eq.)	2.3
Fidelity Mgmt (Overseas eq.)	2.5
First Chicago (Non-$ fixed)	2.6
Morgan Guaranty (Eq.), N.Y.	2.7
Marine Midland (Eq.), N.Y.	2.9
Chase Investors (EAFE index)	3.0
IDS Trust (Coll. eq.), Minn.	3.0
IAA Trust (CTF-I), Ill.	3.3
Morgan Guaranty (Bond), N.Y.	3.4
Prudential (Foreign stock), N.J.	3.9
Travelers (Index), Conn.	3.9
Bessemer Trust (E), N.Y.	4.0
American Nat'l Chicago (Eq.)	4.2
Centerre Trust (Coll. W), Mo.	4.2
Equitable Capital (Port. 20), N.Y.	4.3
MSCI EAFE Index	**4.3**
State Street Bank (Index), Mass.	4.4
Wellington Trust (Pacific Basin)	4.6
Aetna (AMAM-eq.)	4.9
Harris Trust (Eq.), Ill.	5.4
Toledo Trust (Eq.), Ohio	5.8
Citicorp (Eq.), N.Y.	5.9
PCM Int'l (Foreign bond), N.J.	6.3
Citicorp (Fixed), N.Y.	7.5
First RepublicBank (Stock)	8.6
Toledo Trust (Global bond), Ohio	9.0

Investment management consultants will be profiled Oct. 17.

1-year returns

	%
PCM Int'l (Global bond), N.J.	20.3
PCM Int'l (Global yield), N.J.	19.9
First Chicago (Non-$ fixed)	17.6
PCM Int'l (Foreign bond), N.J.	14.8
Morgan Guaranty (Bond), N.Y.	11.5
Provident Capital (Low p/e), Pa.	9.1
Wells Fargo (Eq.), Calif.	8.4
Wellington Trust (Pacific Basin)	8.4
Toledo Trust (Global bond), Ohio	7.1
Confederation Life (Stock), Ga.	5.9
Prudential (Foreign stock), N.J.	5.1
Chase Investors (EAFE index)	5.0
Travelers (Index), Conn.	4.9
California First Bank (Invt. eq.)	4.8
MSCI EAFE Index	**4.3**
State Street Bank (Index), Mass.	4.3
American Nat'l Chicago (Eq.)	3.8
CIGNA (Eq.), Conn.	2.8
Citicorp (Fixed), N.Y.	1.2
First Chicago (Eq.)	0.4
Bankers Trust (Eq.), N.Y.	0.0
Equitable Capital (Port. 20), N.Y.	0.6
MSCI World Index	**0.7**
Harris Trust (Eq.), Ill.	1.3
Aetna (AMAM-eq.)	2.5
Chase Manhattan (Global eq.)	2.6
Wellington Trust (Stock), Mass.	3.2
Centerre Trust (Coll. W), Mo.	3.9
Principal Mutual (Stock SA), Iowa	3.9
Putnam Fiduciary (Trust)	4.9
Morgan Guaranty (Eq.), N.Y.	5.1
Bessemer Trust (E), N.Y.	6.7
Citicorp (Eq.), N.Y.	7.4
PCM Int'l (Print eq.), N.J.	7.6
Marine Midland (Eq.), N.Y.	9.4
First RepublicBank (Stock)	10.4
IDS Trust (Coll. eq.), Minn.	11.5
Toledo Trust (Eq.), Ohio	11.8
Fidelity Mgmt. (Overseas eq.)	13.4

3-year returns

	%
Wells Fargo (Eq.), Calif.	47.2
American Nat'l Chicago (Eq.)	47.0
MSCI EAFE Index	**46.4**
Wellington Trust (Pacific Basin)	46.2
State Street Bank (Index), Mass.	46.1
Prudential (Foreign stock), N.J.	45.3
Provident Capital (Low p/e), Pa.	44.8
Bessemer Trust (E), N.Y.	42.9
Fidelity Mgmt. (Overseas eq.)	41.4
Chase Manhattan (Global eq.)	41.4
Bankers Trust (Eq.), N.Y.	41.0
Marine Midland (Eq.), N.Y.	40.6
First Chicago (Eq.)	40.5
CIGNA Corp. (Eq.), Conn.	39.5

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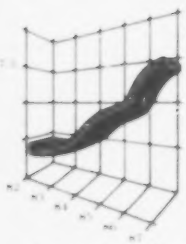

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Takeovers

Continued from page 13

-- 70% in 1986. In the second quarter, the fund returned 4.8%, lagging the S&P and Russell and placing it in the eighth decile of the PIPER universe.

For the year, the median PIPER fund returned -- 2.4%, while the S&P returned -- 6.9% and the Russell 2000, -- 6.5%.

For the three-year period, the PIPER median fund returned 14.3%, while the S&P 500 returned 16.6% and the Russell 2000, 10.5%.

The median PIPER fund for the five-year period returned 8.7%; the S&P 500, 14.6%; and the Russell 2000, 6.2%.

The Emerging Growth fund of Lincoln National Pension Insurance Co., Fort Wayne, Ind., returned 27.3% for the year.

For the quarter, the fund returned 8.6%, placing it in PIPER's third decile and topping the S&P 500 and the Russell 2000.

The fund is managed by Charles Bridges, vice president at Capital Technology Inc., Charlotte, N.C.

According to Robb Rowe, president at Capital Technology, the fund is invested in very small companies with good earnings growth during the past quarter, year and three years, and low p/e multiples.

Buys within the last six months include **AAR Corp.**, **Hexcel Corp.**, **First Hawaiian Inc.** and **Applied Magnetics Corp.**

Funds managed by Shearson Lehman Hutton Asset Management for Shearson Lehman Hutton Trust Co., New York, ranked second and third for the three-year period.

The Emerging Growth fund, since renamed "new values," placed second with its return of 40.8%, while the growth fund finished third with 36.2%.

The Emerging Growth fund has a bias toward relatively modest p/e multiples, with interest in cash earnings momentum, according to David Hillson, senior vice president.

Holdings include **Salick Health Care Inc.**, **American Software Inc.**, **Evans & Sutherland Computer Corp.**, **Career Com Corp.** and **Charming Shoppes Inc.**

"The sell decision is generally a product of the stock having hit a reasonable target for appreciation," he said.

Shearson Lehman Hutton's Growth Fund looks for high-quality, blue-chip stocks, according to Steven A. Kroll, president of the the asset management firm.

He said the fund's core holdings, such as **ITT Corp.**, **Southwestern Bell Corp.**, **General Mills Inc.** and **Bally Manufacturing Corp.**, are "defensive in nature."

The fund recently took profits on cyclical stocks such as **Dow Chemical Co.**, **General Motors Corp.**, **May Department Stores Co.** and **Boeing Co.**

The tangible asset fund offered by Equitable Capital Management Corp., New York, finished second for the five-year period with a 18.4% return. Next was the separate account of Union Labor Life Insurance Co., Washington, with 16.7%.

For the ten-year period, the supplemetal equity fund of California First Bank, San Francisco, was first with an annualized 25.7% return. For the same period, the PIPER median return was 17%, while the S&P 500 returned 16.4%. ■

Centerre Trust (Coll. W), Mo.	38.5
Citicorp (Eq.), N.Y.	38.2
Aetna (AMAM-eq.)	37.9
Wellington Trust (Stock), Mass.	36.0
California First Bank (Invt.-eq.)	35.9
Morgan Guaranty (Eq.), N.Y.	35.6
IDS Trust (Coll. eq.), Minn.	35.5
First RepublicBank (Stock)	35.5
Putnam Fiduciary (Trust)	33.6
PCM Int'l (Global bond), N.J.	32.3
First Chicago (Non-$ fixed)	32.2
PCM Int'l (Foreign bond), N.J.	31.0
MSCI World Index	**30.7**
Morgan Guaranty (Bond)	26.4
Citicorp (Fixed), N.Y.	26.0
Toledo Trust (Global bond), Ohio	24.3
Toledo Trust (Eq.), Ohio	22.9

5-year returns

	%
Wells Fargo (Eq.), Calif.	34.2
MSCI EAFE Index	**34.1**
American Nat'l Chicago (Eq.)	33.5
Wellington Trust (Pacific Basin)	32.3
Bankers Trust (Eq.), N.Y.	30.1
Marine Midland (Eq.), N.Y.	28.1
First Chicago (Eq.)	28.1
Aetna (AMAM-eq.)	26.6
Wellington Trust (Stock), Mass.	25.8
Putnam Fiduciary (Trust)	25.8
Citicorp (Eq.), N.Y.	25.6
IDS Trust (Eq.), Minn.	25.3
Centerre Trust (Coll. W), Mo.	24.9
Bessemer Trust (E), N.Y.	24.4
PCM Int'l (Global bond), N.J.	24.4
MSCI World Index	**23.5**
First RepublicBank (Stock)	22.9
Chase Manhattan (Global eq.)	22.5
Morgan Guaranty (Eq.), N.Y.	22.2
PCM Int'l (Foreign bond), N.J.	20.6
First Chicago (Non-$ fixed)	20.6
Morgan Guaranty (Bond), N.Y.	18.3
Citicorp (Fixed), N.Y.	16.4

10-year returns

	%
MSCI EAFE Index	**22.1**
First Chicago (Eq.)	19.7
MSCI World Index	**19.1**
Morgan Guaranty (Eq.), N.Y.	18.1

Unit trusts cite $1.4 billion gain

WASHINGTON -- Unit investment trusts increased their assets through share offerings in June of $1.4 billion for a year-to-date total of $7.3 billion, according to the Investment Company Institute, the trade association of the mutual fund industry.

A unit investment trust is a fixed portfolio of investments, usually bonds although stocks can be included. The investor purchases an interest in the trust. Securities are held until the trust expires, which can be up to 30 years. Investors receive a pro rata share of the interest or dividends paid.

Tax-free debt trusts issued shares in June with deposits of $775.1 million for a year-to-date total of $4.1 billion. Issues of taxable debt trusts totaled $317.6 million in June for a 1988 year-to-date total of $1.8 billion, and issues of equity trusts totaled $338.6 million for $1.5 billion as of June 30.

There were 138 new tax-free debt trusts issuing shares in June, 16 new taxable debt trusts, and six new stock trusts.

Issues of long-term trusts -- with an average weighted maturity of more than 15 years -- were the most commonly offered in June, with $784.2 million in shareholder deposits. ■

The Value of Ownership

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PIPER

Bond fund leads in quarter

By Carol Wiley

PCM International, Newark, N.J., had the winning formula for its global bond funds, ranking No. 1 for the one, three, and five years in the Pensions & Investments' Performance Evaluation Report for periods ended June 30.

The International Non-Dollar Fixed Income Fund run by First Chicago Investment Advisors joined the PCM funds, placing in the top three for every period.

On the equity side, The Principal, Des Moines, Iowa; CIGNA International Advisors Ltd., London; and Provident Capital Management, Philadelphia, had the top three performers for the quarter.

Provident's International Low P/E equity fund also was the best performer for the year. Wells Fargo Advisors' international equity index fund was second, and Wellington Management Co.'s Pacific Basin portfolio was third.

Wells Fargo, American National Bank, Chicago; and Wellington funds placed first, second and third for the three and five-year periods.

Only two funds are old enough to have participated in the 10-year survey: First Chicago's international equity fund was first with a return of 19.68%, compared with the Morgan Stanley Capital International Europe Australia Far East index return of 22.11%, and the MSCI World index return of 19.14%. Morgan Guaranty's international equity fund returned 18.1% for the 10 years.

The Global Yield fund of PCM — an international investment management subsidiary of the Prudential Insurance Co. of America — returned 4.02% for the quarter, compared with the Salomon Brothers World Government bond index return of of −3.57%.

PCM's Global Bond fund returned −1.62%, making it No. 2 for the quarter.

The Global Bond fund placed first for the one-, three- and five-year periods with respective returns of 20.3%, 32.3% and 24.38%. For the one-, three- and five-year periods, the Morgan Stanley World Index returned -0.7%, 30.7% and 23.5%, respectively.

The Global Yield fund returned 19.89% for the year. PCM's Foreign Bond fund returned −6.29% for the quarter, compared with the Salomon non-U.S. dollar index of −6.96%. It was the third best performer in bonds for the three-year period with a return of 30.98%, compared with 30.71% for the World index, and was the second-best performing bond fund for the five-year period with a return of 20.56%, compared with 23.5% for the World index.

The $80 million Global Yield fund is an aggressively managed money market fund that primarily has benefited from a combination of "active hedging and its high running yield of 11.5%," according to Jeffrey Brummette, director of fixed income.

The fund was overweighted in Australia, New Zealand, United Kingdom and Canada for the first six months, performing well against the U.S. dollar, Mr. Brummette said. In the second quarter, the fund was overweighted in Australia and Canada, "avoiding the trauma of the deutsche mark and yen."

PCM's $250 million Global Bond fund is actively managed, with a focus on interest rate and currency rate anticipation, according to Ken Windheim, director-international fixed income.

The fund has "taken a lot of big moves during the year," Mr. Windheim said. "We've used all the strategies: long in bonds and shorter duration, long and short in dollars, overweighted in dollars and underweighted in bonds in December. Then, in January, we were back to a neutral dollar position and sold U.S. bonds around the world."

In the $150 million Foreign Bond fund, "we were underweighted for the bond market pre-October, neutral after Oct. 19, then underweighted until early January in anticipation of rising interest rates," he said. "In 1988, we've benefited from huge movements in the yield curves."

First Chicago's $265 million International Non-Dollar Fixed Income fund returned −2.56% for the quarter, 15.58% for the year, 32.24% for the three years and 20.55% for the five years.

The fund added 540 basis points over its benchmark during the year, mostly from an overweighting in Australian bonds, said Richard Carr, managing director. About half of the remainder came from correctly anticipating the dollar's recovery, and the rest from its defensive posture in Japan at the beginning of the period.

The $25 million Stock Separate Account run by The Principal is now 1 year old. The account is fundamentally managed and value-oriented, focusing on underpriced stocks with good track records, according to James Bell, senior analyst. Although the country allocation can reach up to 30% in Japan, the weightings remain diversified, emphasizing countries with established and stable markets and politics.

He attributed success during the quarter to the account's heavy weighting in Japanese markets.

The CIGNA International Equity account is a low-risk fund that concentrates on quality stocks in growth sectors within stable markets. The $140 million fund seeks well-financed companies with good cash flow and strong balance sheets in politically stable countries, according to Nicholas Carn, senior portfolio manager.

During the quarter, the account shifted its emphasis to markets in continental Europe from Japan.

Country allocations currently are diversified, with the largest allocation — 23% — to German markets and none in Japan, Mr. Carn said.

The $40 million Provident Capital International Low P/E Equity account buys "large-cap, low p/e stocks by country as a separate universe, selecting from the lower 40% of the market by p/e," according to Sandor Cseh, vice president-international investments.

"During the year, we benefited from the fact that low p/e did very well after the crash," Mr. Cseh said, "and low p/e since has worked worldwide."

The firm bought heavily into Japanese brokerage stocks late last year, cut back in February's rally, and then bought into Japanese utilities in June, Mr. Cseh said.

The $5 million International Stock Portfolio managed by Wellington Management Co., Boston, works in seven markets, but current allocations are 50% Japan, down from 75% during the first part of 1988; 35% in Australia; and 15% in cash, according to Jerrold Mitchell, senior vice president.

Selection of securities focuses on quality blue-chip, growth-oriented companies, Mr. Mitchell said. ■

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CASH MANAGEMENT

Executives pleased with analysis format

Banks did transfers in October

None of the treasury management officials who participated in the 1988 *Pensions & Investment Age* cash management survey said their banks refused to wire transfer funds during the October 1987 stock market crash.

The presidential task force that studied the market crash, known as the Brady Commission, said in its report that on Oct. 20-21 "at certain points . . . 'gridlock' apparently occurred as certain banks declined to transfer funds for a customer until they had received covering funds for that customer's account from another source."

While none of the respondents reported their banks refused to complete wire transfers for them on Oct. 20 and 21, several companies, 15, reported banks did require covering funds for the account before completing their wire transfers on those two days, indicating the Brady Commission findings were not exaggerated as some had contended.

The commission report said its sources attributed the problems to bankers coming up against the daylight overdraft limits imposed by the Federal Reserve Board in March 1986 and revised in July 1987.

Banking concerns were clearly on the minds of the survey respondents.

More than 60% of the respondents said problems in the banking industry have caused them to review their

Continued on page 22

By Fred Williams

Corporate treasury and cash management officials have given the new account analysis format developed by the National Corporate Cash Management Association a ringing endorsement, according to a *Pensions & Investment Age* survey.

In the 1988 survey, 84% of cash and treasury management executives said they are pleased with the NCCMA account analysis format released with much fanfare in November 1987 at the NCCMA's annual conference in Atlanta.

While cash managers are pleased with the account analysis format, developed after several years of study and preparation, banks are slow to offer the account format, according to the survey.

Only 57% of the survey respondents said their banks were using the NCCMA format; 43% said their banks had not adopted the standard. Only 23% of the treasury officials had asked any of their banks to use the standard; 77% had not asked their banks to use the standard.

While the response to the new format was overwhelmingly positive, it is not viewed as a critical factor in evaluating banking relationships, according to the survey. Nearly all (99%) of the respondents said they would not end a bank relationship over the use of the format, but 54% said they would use the standard as a possible tie-breaker in selecting banks and for evaluating banking services.

The survey findings were compiled from 162 responses to questionnaires mailed to domestic cash and treasury management executives in 500 large corporations in June and early July. The survey asked treasury officials their views on topics ranging from how they allocate their time to what emerging issues will affect cash management in the future.

Of the respondents, 14 were corporate treasurers; 11, treasury or treasury operations managers; 50, cash managers; 19, assistant treasurers; seven, directors or vice presidents of finance; two, chief financial officers; and three, controllers. Others were treasury analysts, directors of finance, managers of cash and banking and supervisors of cash operations.

Among other findings the survey found:

- An undercurrent of concern regarding the banking industry and rising costs and risks associated with bank fiscal soundness. Comments regarding banks appeared in several areas of the survey. (*See related story.*)
- Most corporations do not hedge short-term borrowings, even in the face of rising interest rates.
- The vast majority of treasury operations at companies that are net investors do not use outside investment management firms.
- Almost half (44%) do not have any benchmark to evaluate internal investment staff or outside managers.
- One-third of the respondents (32%) admit the benchmarks could be improved but do not plan to make any changes.
- Treasury executives believe the NCCMA has been either somewhat effective in lobbying regulatory authorities about corporate concerns (79%) or very effective (11%).

In describing how much time they spend in various treasury functions, 17% of the respondents said they were dedicated to broader corporate finance issues, 5.9% with working capital management and 26.6% in the general category described as other, which includes such areas as foreign exchange, administrative duties, taxes, operations, accounting, risk management, cash forecasting, financial analysis and regulatory work. One respondent said the "other" category was for "putting out fires."

According to the survey, treasury managers spend 6% of their time on float management, 5.5% on selecting collection/disbursement banks, 3.5% selecting lending banks and 11% on other banking relations. Investing corporate cash accounted for 11.3% of their time and short-term borrowing, 6.5%. Electronic funds transfer and electronic data interchange issues now take only 3.8% of their time, according to the survey.

Only 13% of respondents employ hedging techniques against potentially rising interest rates on an average of 32.79% of their borrowings. Another 23% said they were considering a hedging program. More than half, 57%, said they had never hedged their portfolios. The treasury managers considering hedging their short-term borrowings may have been affected by the upward trend in interest rates. Rates on three-month Treasury securities have increased to 7.07% from 6.16% a year ago; on six-month securities, rates increased to 7.54% from 6.25% one year ago.

Only 27 of the 162 respondents reported using or planning to use outside investment management firms by 1989. Ten respondents used one manager and 10 used two managers; the remainder reported using more than two managers.

Corporate treasury officials continue to display some reservations about the certification program being offered by the NCCMA. Respondents reported a total of 52 people in their corporations took the NCCMA certified cash manager examination in 1987 with 35 passing the exam for a success rate of 67%, the same as reported by the NCCMA.

A total of 39 people took the exam in 1988, according to the survey, but 1988 results were not available by the time the survey data were compiled.

Of treasury executives asked whether their company considered the certified cash manager program worthwhile, 41.5% said no while 58.5% saw it of value.

A few respondents took the opportunity to provide comments

Continued on page 22

Treasury Functions

Average amount of time spent on:	
Float management	6%
Selecting collection/disbursement banks	5.5%
Selecting lending banks	3.5%
Other bank relations	11%
Investing corporate cash	11.3%
Short-term borrowing	6.5%
Broader corporate finance	17%
EFT & EDI development	3.8%
Working capital management	5.9%
Pension investments	2.9%
Other	26.6%

1. Have troubles in the banking industry this year caused you to review your banks' fiscal soundness more systematically?

Much more	10%
Somewhat more	51%
No	39%

2. What percentage of bank charges do you pay in:

Compensating balances	47.6%
Cash fees	52.4%

3. Have you hedged any of your borrowings to protect against potentially rising interest rates?

Do so now	13%
Considering	23%
Ended this year	3%
Ended before 1988	4%
Never hedged	57%

NOTES

NACHA seeking chief

WASHINGTON — The National Automated Clearing House Association hopes to name a new president and chief executive officer before the end of November to replace William R. Moroney, who announced his resignation in early August.

Mr. Moroney, who heads the search committee seeking his replacement, is leaving to start his own publishing business.

William B. Nelson, senior director of network services at NACHA, said the search committee is evaluating candidates to replace Mr. Nelson and the NACHA board of directors hopes to announce the new president at its Nov. 17 board meeting. Mr. Moroney has agreed to remain in his post until his replacement is named.

Program launched

SAN ANTONIO, Texas — Diamond Shamrock R&M Inc. has initiated its first commercial paper program since being spun off as a separate company from Diamond Shamrock Corp., now Maxus Energy Corp., nearly 15 months ago.

The company issued $17 million in paper to finance working capital and reduce corporate debt.

Diamond Shamrock is authorized to issue up to $145 million but Robert C. Becker, treasurer, said the company plans a "relatively small" presence in the commercial paper market in the next six to 12 months. He said the company plans to issue "not more than $50 million to $75 million" in commercial paper during that time.

Mr. Becker said short-term financing had been handled through a series of bank revolving credit arrangements. The credit lines will continue to be maintained.

Diamond Shamrock's commercial paper dealer is Merrill Lynch Money Markets Inc., New York.

Mr. Becker said commercial paper should provide "at least" a one percentage point rate differential over bank borrowing, but declined to disclose the exact rate obtained. Access to the commercial paper market should reduce the company's overall cost of borrowing, he said.

"When we were spun off 15 months ago we had a 60% debt-to-capitalization ratio and now we have it down to 45% and rates then reflected a higher risk factor," said Mr. Becker.

Standard & Poor's Corp., New York, has assigned a rating of A-2 to the Diamond Shamrock commercial paper program and reaffirmed the BBB rating on Diamond Shamrock preferred stock.

Mr. Becker said a senior financial analyst will administer the company's commercial paper program in the treasury department.

The Diamond Shamrock commercial paper program is not hedged.

Fed getting tougher

WASHINGTON — The Federal Reserve Board intensified its war

Continued on page 22

This announcement appears as a matter of record only July 15, 1988

INVEXCO, INC.

Houston, Texas

has entered into a

$180,000,000

Six-Year Oil and Gas Exploration and Development Program

with

HARRY H. CULLEN

and

QUINTANA PETROLEUM CORPORATION

Aeneas Venture Corporation
an investment affiliate of Harvard University
and other investors have acquired interests in Invexco, Inc.

The undersigned initiated this transaction

Lester Harold Smith
Houston, Texas

Cambridge Capital Holdings
New York, New York

Transfers made

Continued from page 21
banks' fiscal soundness more systematically. In fact, banking problems were mentioned throughout the survey responses in various other contexts such as mergers, federal bailouts and general solvency.

The trend of cash managers consolidating banking services is continuing as treasury executives reported dropping a total of 64 banks during the last year and an average of two to three banking services each, while reducing the use of 35 banks providing an average of one to two banking services each.

Services dropped or reduced covered the gamut from zero balance accounts, depository arrangements, controlled disbursement, investment and lines of credit. Lockbox services were mentioned most often as being dropped or reduced.

There has been a definite trend for the past several years among treasury managers toward paying their banks through fees rather than balances. The majority of respondents to the survey indicated the trend is continuing; 52.4% said they pay bank charges in fees and 47.6% in compensating balances. When asked their goal for 1989, respondents continued to favor fees by 55.3%, while only 44.6% plan to pay through compensating balances.

Banks have been raising fees for cash management services, according to survey respondents, primarily for lockbox services, wire transfers, balance reporting, account maintenance, check processing and controlled disbursement. Several respondents said their banks had raised fees for "all" cash management services.

Some bank services, however, became more competitively priced during the past 12 months, according to the survey. Services mentioned as becoming more competitively priced include check clearing, automated clearinghouse services, account reconciliation, controlled disbursement, and credit line fees. ■

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If you are among those dedicated to increased profitability, enter the universe designed with that same dedication.
Call your Manufacturers Hanover cash management representative today.
The Electronic Banking Group

Executives

Continued from page 21
such as "we consider it a personal, NOT a professional credential," and "we encourage taking the exam, (but) do not believe it necessary to do the job," and "personal worth only."

Given the media attention over electronic payment programs and efforts to develop an electronic corporate trade payments system, the survey findings on electronic funds transfer were somewhat surprising.

Most treasury executives have no plans to initiate electronic funds transfer programs to pay vendors. By a margin of 2 to 1, respondents said they have no immediate plans to pay vendors electronically. Of those who do plan to offer an electronic payment program, most plan to start in the 1989-'90 time period.

When asked to describe two issues they think will be important to cash managers during the next few years, respondents concentrated on several areas. The areas mentioned were: EFT for paying and receiving; the Federal Reserve Board's efforts to deal with daylight overdrafts; Regulation CC, which implements the Expedited Funds Availability Act to speed check processing; the proposed 2 p.m. check presentment proposal by the Fed; electronic data interchange; wire transfer security and liability and float management and Fed efforts to eliminate float.

Other areas also mentioned include bank capital adequacy standards, continued deterioration of bank services, higher banking costs and risks in the payment system. ■

NOTES

Continued from page 21
on remote or delayed disbursement practices during June by issuing for public comment a proposal to clamp down on checks written by banks on another bank in a separate processing district.

The proposed rule — which would become effective April 1, 1989 — would permit a bank to issue a check drawn on another bank only if it can ensure a depository bank in the same community as the issuing bank can receive credit for the transaction as early as a check drawn on the issuing bank.

In an accompanying memorandum, the Fed stated it "believes the banking industry has a public responsibility not to design, offer, promote, or otherwise encourage the use of a service expressly intended to delay final settlement and that exposes payment recipients to greater than ordinary risks."

The board claimed delayed disbursement results in higher transportation and processing costs and an increased possibility of check fraud.

Despite its past policy statements on the issue of delayed disbursement, the Fed said the practice is still being used.

PORTFOLIO MANAGEMENT

FEATURE

International fine-tuning

GDP-weighted system includes growth projections

By Ronald D. Frashure

Much attention is being given to alternatives to market-value-weighted strategies for international equity investing.

Concern over Japan's high weighting in the widely followed indexes, especially the Morgan Stanley Capital International Europe Australia Far East index, is promoting a search for an alternative to serve as a benchmark for international indexing, or as a normal portfolio for active management.

One option to market-value weighting is weighting by gross domestic product, as discussed by David A. Umstead (*Pensions & Investment Age*, May 2). More recently, Morgan Stanley officials recognized the concern and added a GDP-weighted version of the market-value-weighted EAFE (*P&I Age*, Aug. 22).

A major drawback to a GDP-weighted strategy is that it does not consider factors accounting for valid differences in the ratios of market-value weighting to GDP weighting in each country.

One difference especially is economic growth.

Investors typically would pay more for stocks in a high-growth, developing Pacific Basin economy than for those in a cyclical growth, developed European country, which might have very cautious economic policies and a declining population (e.g., West Germany). An analogy would be investors who pass up stocks with the highest dividend yields when the dividend isn't likely to grow much in favor of somewhat lower yielding stocks with prospects for much stronger dividend growth.

A way to mitigate this problem would be to incorporate projected long-term economic growth into a GDP-weighted strategy. The obvious question is how to project GDP growth. Experienced investors know the pitfalls in relying on economists' forecasts for even short-run conditions. Also, those pursuing customized index-matching approaches usually want to avoid qualitative or subjective inputs to the process.

To get over this hurdle, I've tested to see whether long-term (10 years) historical real economic growth rates have been a reasonably good indicator of subsequent long-run growth in a number of countries. This test appears intuitively plausible. A developing economy that has been growing at an 8% to 10% real rate annually might slow to 6% to 8% but probably won't drop off precipitously — unless there is a calamitous development, economic or political. Conversely, a mature economy that has grown at a 2% to 3% rate for a long period might accelerate to 4% to 5% for a while, but probably isn't going to jump to a sustained 8% to 10% pace for an extended period.

The test used data from the Organization for Economic Cooperation and Development for countries in the EAFE index, going back to 1961. (The data for non-OECD countries in EAFE were obtained from other official sources.) I picked this starting point because most of the initial recoveries from World War II that might distort differences in national economic performance had taken place by the end of the 1950s. I computed 10-year historical real GDP growth rates country by country for each year beginning for the period 1961 to 1970 and then did a cross-sectional regression against subsequent actual moving 10-year real GDP growth rates for each EAFE country. Ten-year growth rates were used to avoid business cycle distortions over shorter periods.

Ten-year historical annualized real GDP growth proved to be a good predictor of subsequent 10-year annualized growth, with correlation coefficients ranging as we moved forward year by year from 0.66 to 0.96. (The t-statistics were also high, indicating statistical validity to the prediction, varying from 3.2 to 6.4.)

The real question is whether adding long-run GDP growth as a predictor of future growth to a plain GDP-weighted strategy can enhance investment results from the unmodified strategy. The answer is definitely yes.

Arriving at this answer required a technique for augmenting the GDP-weighted strategy with growth. Our approach was straightforward. At any point in the time period, we used trailing historical 10-year real GDP growth as a proxy for future growth and then computed the 10-year projected real GDP weighting country by country as a percentage of EAFE's total projected GDP. These projected 10-year GDP weights were used to set the country weightings in the growth-enhanced GDP strategy, as we call it.

As shown in Table 1, the growth-enhanced GDP strategy results in somewhat different weightings from a plain GDP-weighted strategy and a substantial difference from the conventional market value-weighted strategy. (The underlying GDP statistics, based mainly on OECD data, are stated on a common basis of 1980 price levels and exchange rates.)

Both GDP indexes significantly reduce Japan's weighting compared to that in the market-value index. But in the growth-enhanced GDP index, Japan's weighting is higher than in a plain GDP index. The reason is the growth-enhanced index allows for Japan's relatively high economic growth. West Germany and the United Kingdom, on the other hand, have lower weights in the growth-enhanced GDP index than in the plain GDP index, because of their relatively slow-moving economies. But their weights in both GDP indexes is significantly higher than in the market-value index, reflecting the relative size of their economies as opposed to the value of their stock markets.

At the same time, Hong Kong and Singapore/Malaysia have higher weightings in the growth-enhanced GDP strategy than the plain GDP version.

Table 2 shows the year-by-year results from a growth-enhanced GDP strategy, a plain GDP index and the market-value approach of the EAFE. (The results are net of rebalancing costs estimated at 75 basis points for buys and sells, in line with the current transactions cost; the market-value weighted index requires no rebalancing.)

The growth-enhanced GDP strategy performed in line with EAFE from 1971 to 1987, while the plain GDP strategy did about 40 basis points annually below EAFE. Each of the GDP-based strategies had a somewhat higher volatility of returns than EAFE. ■

Ronald D. Frashure is executive vice president of Acadian Asset Management Inc., Boston.

TABLE 1

EAFE index weighting comparisons
(As of Dec. 31, 1987)

	Market value	GDP	Growth-enhanced GDP
Austria	0.2%	1.5%	1.4%
Belgium	0.9	2.3	2.1
Denmark	0.3	1.4	1.3
France	3.6	13.6	12.5
West Germany	4.7	16.4	15.0
Italy	2.6	9.5	9.3
Netherlands	2.2	3.4	3.0
Norway	0.2	1.3	1.4
Spain	1.5	4.5	4.1
Sweden	1.2	2.6	2.4
Switzerland	2.8	2.1	1.9
United Kingdom	14.4	11.4	10.5
Europe	*34.6*	*70.0*	*64.8*
Australia	2.1	3.3	3.4
Hong Kong	1.2	0.8	1.4
Japan	61.4	24.8	28.0
Singapore/Malaysia	0.7	1.1	2.4
Pacific Basin	*65.4*	*30.0*	*35.2*
TOTAL	100.0	100.0	100.0

Source: Morgan Stanley Capital International and Acadian Asset Management Inc.

TABLE 2

EAFE index performance comparisons
(Total returns in U.S. dollars)

	Market value	GDP*	Growth-enhanced GDP*
1987	24.9%	9.6%	11.0%
1986	69.9	68.6	70.3
1985	56.7	80.4	77.8
1984	7.9	7.1	7.8
1983	24.6	25.1	25.1
1982	−0.9	−0.3	−1.0
1981	−1.0	−4.7	−4.2
1980	24.4	20.5	20.7
1979	6.2	11.7	11.1
1978	34.3	35.0	36.5
1977	19.4	13.5	12.3
1976	3.7	−0.6	1.1
1975	37.1	35.5	32.7
1974	−22.2	−16.3	−16.1
1973	−14.2	−4.2	−5.5
1972	37.6	38.8	47.0
1971	31.2	14.3	15.8
Annual compound	17.7	17.3	17.7
Standard deviation	23.3	25.0	25.2

All returns before withholding taxes.
* After estimated rebalancing transaction costs.

Greece fund to be launched

LONDON — Alliance Capital Management Corp.'s London office is preparing to launch a closed-end mutual fund investing in Greece by late October, according to Mark Breedon, vice president of the firm, which manages $800 million in international assets for U.S. tax-exempt clients.

Like the firm's recently launched Spain Fund, the Greece fund likely will be offered in the United States, Europe and Japan.

The fund will be managed by Alliance and a local Greek investment adviser. Alliance runs the Spain fund — which invests 25% of its assets in unlisted securities — in a venture with Banco de Viscaya, Madrid.

In addition, the Greece fund will be financed in part by mezzanine capital. First Boston Corp., New York, was lead manager of the Spain fund, which raised $120 million. ■

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Soars

Continued from page 1

"The bulk of the money and maybe the majority of the clients are now in global," Mr. Brinson said. "More than half of our assets represent participants in global products."

Ballard Biehl & Kaiser, San Mateo, Calif., adds the categories of real estate and precious metals. "It's a tremendous opportunity for higher returns and hedging risk," said Peter Hill, executive vice president. "Sometimes it's difficult to deal with the liquidity problems, but markets grow up and mature. It's one way to expand your horizon."

Ballard Biehl & Kaiser, also an investment management consultant for pension sponsors interested in tactical asset allocation, now has $200 million under management for the product, up from $125 million as of Aug. 30, 1987, a 60% increase. Five clients were added, bringing the total to 25.

Prudential Diversified Investment Strategies, an affiliate of the Prudential Insurance Co. of America, Newark, N.J., added 2.8% to last year's amount, giving it a total of $7.1 billion in tactical asset allocation products, up from $6.9 billion as of Aug. 31, 1987. Ten clients were added, bringing the total to 155.

Mellon Capital Management, San Francisco, reported $6 billion, up 50% from $4 billion. Mellon had 48 clients as of Aug. 31, last year's client number was unavailable.

TSA Capital Management, Los Angeles, reported $3 billion, up 30.4% from $2.3 billion as of Aug. 31, 1987. Ten clients were added, bringing the total to 30.

Renaissance Investment Management Inc., Cincinnati, reported $1.51 billion this year, compared with $1.24 billion as of June 30, 1987, a 21.8% increase. The firm added 24 clients, bringing the total to 252.

Avatar Associates, New York, which has gained 10 clients in three months, experienced a 62.5% increase, to $1.3 billion from $800 million last year. It has 93 clients, up from 77.

Citicorp Investment Management, New York, also saw healthy growth, to $1.25 billion from $850 million, a 47% increase. Three clients were added since July 30, 1987, bringing the total to 13.

Bankers Trust Co. — Investment Management Group, New York, maintained its $1.05 billion in tactical asset allocation assets for 13 clients. Bankers Trust experienced neither a loss nor a gain because of the market crash, according to Steven A. Lauer, vice president and manager of the options and futures group.

J.P. Morgan Investment Management Inc., New York, which launched its tactical asset allocation product this year, already has $500 million in assets and seven clients as of Aug. 30.

Chase Investors Management Inc., New York, was the only large firm to see its tactical asset allocation assets decrease, to $300 million, from $330 million. Michael Schonberg, managing director, attributed the decrease to Oct. 19. There is one client.

Matrix Capital Management, Greenwich, Conn., gained six clients during the 12 months ended Aug. 31 for its one-year-old program. Matrix has a total of $187 million from six clients.

Webster Capital Management, New York, which also launched its tactical asset allocation product a year ago, now has one client and $50.1 million under management. ■

Big play

Continued from page 2

Schmitting said.

The portfolio holds about 320 to 330 stocks, totaling $1 billion in market value, he added.

The August filings, although representing a small number of the stocks in the portfolio, involved a major part of its market value, amounting to $91 million, or nearly 10%, based on the SEC data. The board holds less than 5% of most of the stocks in the small-cap portfolio.

Mr. Schmitting is assistant to John Nelson, investment director in charge of the small-stock portfolio who was unavailable for comment.

The board has four other equity portfolios, all for stocks larger than $500 million in market capitalization. The portfolios have about $6.75 billion combined and are run or overseen by James Severance, investment director.

Mr. Schmitting noted that, as a policy, he and Mr. Nelson will retain stocks in the small-stock portfolio even after those companies' market capitalization grows beyond $500 million, if their investment outlook looks promising. He said they won't purchase any additional shares of the stocks unless their market cap again falls below $500 million.

According to the most recent SEC filings, dated Aug. 22, the board disclosed reaching the 5% threshold for:

- **Angelica Corp.**, St. Louis, with 5.4%, or 496,000 shares, valued at $11.1 million as of the closing price Aug. 26;
- **JP Industries Inc.**, Ann Arbor, Mich., 5.2%, or 580,700 shares, valued at $9.1 million;
- **Western Waste Industries**, Gardena, Calif., 5.3%, or 260,000 shares, valued at $4.5 million;
- **MTS Systems Corp.**, Eden Prairie, Minn., 6%, or 345,000 shares, valued at $6.4 million.

On the same day in another filing, the board disclosed a recent reduction in its holding of **Healthcare Compare Corp.**, Downers Grove, Ill., to 6.1%, or 345,000 shares, valued at $4.8 million. Only a week earlier, the board reported raising its ownership in Healthcare Compare to 7.9%, or 445,000. By contrast, as of March 31, the board held no shares in the company, according to SEC 13(f) filings, reported by CDA Investment Technologies Inc., Rockville, Md.

In other filings in August, the board reported boosting its holdings in:

- **United Education & Software**, Encino, Calif., to 7.3%, or 475,000 shares, valued at $2 million;
- **Pic 'N' Save Corp.**, Carson, Calif., to 5%, or 1.9 million shares, valued at $24.8 million;
- **Pope & Talbot Inc.**, Portland, Ore., to 5.4%, or 647,900 shares, valued at $10.8 million;
- **Emcon Associates**, San Jose, Calif., to 5.9%, or 145,000 shares, valued at $2.2 million;
- **Toro Co.**, Bloomington, Minn., to 7.6%, or, 731,700 shares, valued at $13.6 million; and
- **Dresher Inc.**, Bedford Park, Ill., to 6.8%, or 306,000 shares, valued at $1.7 million.

In some of the 11 companies, the board's investment would make it one of the leading institutional shareholders, able to exert a strong voice through its proxies, according to CDA's 13(f) reports. In some cases, institutions hold less than 50% of a particular company's stock. At United Education, institutions hold only 19% of its shares, based on the first quarter 13(f) reports. Based on that data, which don't reflect more recent changes in positions of other institutional investors, the Wisconsin board would be United Education's biggest institutional holder, owning more than one-third of the total institutional position. ■

Buybacks assessed

By Marlene Givant

The size of the U.S. equity market could shrink to that of the United Kingdom within 30 years if net withdrawals of corporate equities from the market continue at their current rate.

The United States represents 30.8% of the Morgan Stanley Capital International World index while the United Kingdom represents only 8.7%.

Since 1984, corporations have been retiring more stock through stock repurchases, leveraged buyouts and mergers and acquisitions than they have been issuing — despite the large volume of initial public offerings in recent years.

"Sooner or later the withdrawal of equity is likely to come to an end, removing a source of support to the market," noted Sarah Gardner, U.S. analyst for UBS Phillips & Drew International Ltd., London, in an economic briefing called "American Pie."

"If (net withdrawals) carry on at this rate much longer, it will get a bit silly. But at the moment, there doesn't seem to be any end to it," Ms. Gardner said.

If inflation picks up and interest rates increase during the next two to three quarters, net withdrawals will slow, she said.

"I think we've seen a top of the U.S. market (when the Dow Jones industrial average reached near 2000) so I feel a down trend is on its way. . . . As interest rates climb, it will be less advantageous for companies to repurchase their shares. The peak of net withdrawals was after the crash. They will gradually slow into next year."

Net withdrawals in the years since 1984 have slowly become a factor in supporting the U.S. stock market.

"It's a structural change that has taken place. We're coming to an end of the cycle. Net withdrawals will soon be outnumbered by IPOs," she said.

Until now, the decline in the number of shares in the U.S. market has been overshadowed by rising equity prices.

"Now that there's a downturn in stock prices, I would imagine the U.S. market value ($3.5 trillion as of the first quarter) will level off because of the effect of net withdrawals," Ms. Gardner said.

Net withdrawals peaked after the crash. As initial public offerings immediately dried up and mergers and acquisitions activity stagnated, many companies announced stock repurchase plans, viewing their companies as cheap.

Consequently, net withdrawals rose from $75.9 billion in 1987's third quarter to $93.9 billion in the fourth quarter of 1987 and $92.7 billion in the first quarter of 1988.

In recent years, equity prices have benefitted from the declining number of total shares. Fewer shares have led to higher reported earnings per share.

Among other findings in the report:

- Despite the attention that has been focused on the overseas sector's ability to affect the U.S. market, foreign investment in the United States accounted for just 6% of market value at year-end 1987, compared with 5% in the U.K. and 3% in Japan.
- About two-thirds of U.S. corporate equities are owned by individuals, while two-thirds of the U.K. equity market is owned by institutions. U.S. pension funds own just 16% of all domestic equities, including mutual funds; the corresponding figure is 32% in the U.K. Institutions in total (including insurers) own 24% of equities in the U.S. compared with 67% in the U.K.
- The shareholder muscle of U.S. individuals is not widely dispersed. Although private investors in the U.S. owned 64% of corporate equities at the end of 1987 through direct holdings and mutual funds, slightly more than half of these equities were owned by individuals in the top 2% income bracket; 85% of the individuals earned more than $50,000 a year. ■

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PENSIONS & September 19, 1988

Investment Age

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Captives' assets targeted

By Trudy Ring

Domestic investment managers are making a push into the $14 billion captive insurance company market, long dominated by internationally oriented managers.

"It's an area where there will continue to be a growing pool of investible assets that will have to be managed," said Michael Witte, vice president of Citicorp Investment Management, New York. Domestic managers are certain to step up their marketing efforts to captives, he said.

Citicorp manages $125 million for captives located outside the United States, but is marketing to those in the United States as well, and finds that business is the fastest-growing portion of its $2.2 billion in total insurance company assets under management, Mr. Witte said. Citicorp might dedicate one marketer solely to the captive area, he said.

A "historical accident" has given internationally oriented managers with expertise in running Eurodollar bonds the biggest share of captive assets so far. Changes in the captive marketplace, however, could mean other types of managers and other asset classes will get a larger chunk of future cash flows.

A captive insurance company is any insurer that is owned by another company. Companies set up captives for a variety of reasons — to self-insure, to avoid fluctuations in rates charged for insurance or to gain direct access to the reinsurance markets, in which an insurer sells off a portion of the risk it has assumed.

In the 1960s and 1970s, many U.S. companies set up captives offshore because of tax and regulatory advantages. Bermuda has been the most popular domicile for captives, with about 1,300 such companies; there are more than 3,300 captives in the world. Other popular domiciles include the Cayman Islands and Barbados.

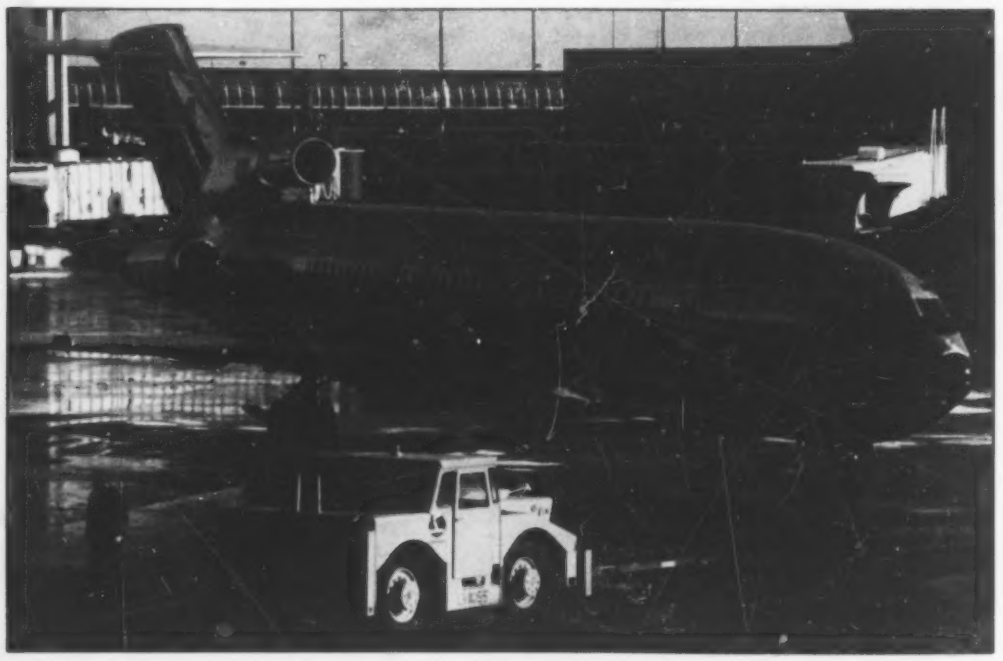
The 1986 Tax Reform Act, however, eliminated many of the advantages of doing business offshore, and several states have passed laws making it cheap and easy to set up captive insurers. Vermont, with 124 captives established through the first quarter of

Continued on page 33

Leading captive insurance managers

	$ mils.
J.P. Morgan	2,600
N.M. Rothschild	1,700
Morgan Grenfell	1,300
Morgan Stanley	1,052
Chase International	1,000
Baring International	758
Schroder Investment	540
WorldInvest	500
Posthorn Global	400
Travelers Asset (Int'l)	250
Citicorp	125

Source: *Pensions & Investment Age*



Eastern Air Lines' request for a waiver of its $105 million pension contribution has come under attack by the International Association of Machinists and Aerospace Workers union.

Eastern battle wages

Union says second waiver not needed

By Nicky Robertshaw

WASHINGTON — The Eastern Air Lines machinists have asked the government not to waive the Texas Air Corp. subsidiary's $105 million pension fund contribution, saying the airline can afford to pay but prefers to use the money to drive out the unions.

"Texas Air and its subsidiaries have money to spend, money to lend and money for strike war chests," said Charles E. Bryan, president and general chairman of the International Association of Machinists and Aerospace Workers, District Lodge 100, in a Sept. 7 letter to the Internal Revenue Service. "No

Continued on page 30

Realty unit's management restructured

By Andrew Reinbach

NEW YORK — Steven E. Wheeler, Morgan Stanley Real Estate Inc.'s co-managing director, is leaving the firm, and his partner William S. Bahrenburg Jr. has been shorn of administrative duties.

The moves are the latest round of what insiders say is a long-running political struggle waged by Morgan Stanley Inc. for control of its real estate group.

James M. Allwin, managing director, has moved from the mergers and acquisitions staff to assume administrative control of the unit.

Mr. Allwin reports to Eric Gleacher, head of mergers and acquisitions; the unit formerly reported to Robert Greenhill, who runs the corporate finance group.

Mr. Bahrenburg is taking the title of chairman and will concentrate on new business development. Bowen H. "Buzz" McCoy, previously chairman, will be chairman emeritus.

"I wouldn't personally use the word control, but there's an element of truth in that," said Mr. Bahrenburg in reference to the parent company's efforts. "One of the efforts here is to better integrate us with corporate finance."

The struggle between management and the real estate unit is rooted in the unit's origins as Brooks Harvey & Co., an old-line brokerage firm — credited by some with helping invent real estate investment banking — that was acquired by Morgan Stanley in 1969.

Morgan Stanley officials, realizing real estate types are different from the typical investment banker, set about integrating the new unit into the fold.

Mr. Bahrenburg helped in this effort, shifting from corporate finance to Brooks Harvey not long after he joined Morgan Stanley in the late 1960s.

But the unit's success led it in its own direction. It is widely credited with being the first to apply the concept of the internal rate of return to

Continued on page 34

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ROPERTY - Follows Page 18

LATE NEWS

2 compute retiree-health liability

WASHINGTON — Two estimates of the size of the current retiree-health care liability for the private sector released last week are less than one-fourth of the $2 trillion figure floated last year on Capitol Hill.

The General Accounting Office estimates the liability for current active employees and retirees is $402 billion — $221 billion in accrued benefits and $181 billion in benefits not yet accrued.

This estimate, however, does not take into account the effect of the Medicare Catastrophic Coverage Act of 1988, which would reduce retiree-health care costs 30%, according to the Employee Benefit Research Institute, Washington.

An EBRI study estimates the liability is $169 billion for current active employees and retirees, if the Medicare act is taken into account, and $247 billion if it is not.

Employees buy Wyatt Cafeterias

DALLAS — Shareholders of closely held Wyatt Cafeterias Inc., Dallas, sold the company to a new Wyatt employee stock ownership plan in a leveraged transaction worth an estimated $186 million.

Ten banks participated in the financing, said Mark Shackelford, Wyatt Cafeterias' chief financial officer, but he declined to name the bank network. About $35 million of the financing package was subordinated debt and $15 million, preferred equity, he said.

Westinghouse Credit Corp, Pittsburgh, provided $15 million of subordinated debt and the $15 million in preferred equity. The remainder of the debt was provided by American General Corp., a Houston insurance company.

The sale of the company to employees ended a two-month attempt by Furr's/Bishop Cafeterias L.P., Lubbock, to take over the nine-state, 120 chain of cafeterias. Wyatt shareholders rejected a sweetened bid of $91.25 per share, or $188 million, by Furr's/Bishop in favor of the leveraged ESOP, which provided shareholders $84 per share.

Oregon acquires office building

WASHINGTON — Alex. Brown Realty Advisors Inc., Baltimore, has purchased the 1333 New Hampshire Avenue Building in Washington's central business district on behalf of the $8.7 billion Oregon Public Employes Retirement System, Salem, which is a separate account client.

The 12-story, 321,000-square-foot office building is 100% leased. The fund paid $75 million to Lehndorff New Hampshire Venture. Rosenthal-Shuler Realty Partners acted as the agent on the purchaser's behalf.

Alex. Brown has $1.3 billion in assets under management for real estate clients.

Firm formed for realty investing

MONTVALE, N.J. — Campbell Kunz Management Corp., Montvale, N.J., is entering the real estate investment management arena, planning to capitalize on the turnaround of the real estate market.

The firm, led by Principals Kenneth D. Campbell and Raymond G. Kunz, is majority owned by Audit Investments Inc., the Montvale-based firm of which Mr. Campbell is president and founder. Mr. Kunz had been chief operating officer of London & Leeds Shopping Center Corp. and had served as a vice president with Morgan Stanley Realty Inc.

Mr. Campbell said his strategy is to make client investments in both the direct real estate and the real estate securities markets.

"We believe that sophisticated investors must address both components . . . in today's market to maximize return on their real estate allocation," he said.

Campbell Kunz will serve pension plan sponsors, foundations and endowments as well as other institutions and individual investors.

Audit Investments manages $7 million for institutional real estate clients.

Jim Walter selects 2 consultants

TAMPA, Fla. — Jim Walter Corp. has hired Performance Analytics Inc. and its affiliate Spectrum Advisory Corp., both in Chicago, as consultants to its newly organized, $125 million pension fund.

Jim Walter was spun off from Walter Industries Inc., also in Tampa, in April, and the pension assets were transferred in June, according to John P. Borreca, chief financial officer.

Mr. Borreca said the consultants will help the new firm determine processes for manager searches, asset allocation, performance evaluations and other pension fund decisions "from soup to nuts."

DEPARTMENTS

Classified	32	Opinion	10
Financing	17	Pension Surplus Index	35
From the editor's desk	10	P&I Age Indexes	32
International	19	Portfolio management	13
Letters	10	PROPERTY	follows 18
Market beat	15	Valuation index	35
Money movers	28	Washington	24

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SEC is challenged

Execs target one-share, one-vote rule

By Marcia Parker

WASHINGTON — America's chief executives, who largely have been quiet on the sensitive subject of corporate governance, have taken the first step toward mounting a legal challenge of a long-standing rock bed of corporate democracy — the one-share, one-vote rule.

But the Business Roundtable, the lobbying group that represents the chief executives of America's 200 largest corporations, did not spell out the grounds for its expected challenge. The group's two-page petition for review of the controversial Securities and Exchange Commission rule was filed Sept. 2 with the U.S. Court of Appeals for the District of Columbia Circuit.

The next move is for a Roundtable committee to go beyond its decision to preserve its right to challenge the rule by filing the petition. The group has 60 days to *file a more detailed complaint*. The issue was discussed at the board meeting Sept. 15, but no decisive action was taken.

After lengthy discussion and public hearings, the SEC in July adopted a limited one-share, one-vote standard for stocks listed on the nation's largest securities exchanges. There was intense debate over a 1986 proposal by the New York Stock Exchange to allow listed companies to have unequal voting rights (*Pensions & Investment Age*, Dec. 8, 1986). A number of other stock exchanges already had loosened their rules on one-share, one-vote, and the NYSE was feeling competitive pressure.

The Roundtable lobbied hard to defeat the one-share, one-vote rule. It is believed the group will mount its legal challenge to the rule by arguing the SEC has no jurisdiction in the matter, an argument critics dismissed earlier as having no merit.

"It's not surprising that the Business Roundtable has challenged the SEC's one-share, one-vote ruling. Its representatives have contended from the beginning of the SEC's hearings on the issue that the commission did not have the authority to prescribe voting rights — that that should be left to the states, not a federal regulatory agency or even Congress," said Peg O'Hara, director-corporate governance service at the Investor Responsibility Research Center, Washington.

"If that is indeed the grounds on which the Roundtable bases its challenge, it's a pretty basic issue, and you might very well see Congress react by either mandating a one-share, one-vote standard or specifically spelling out the SEC's authority to do so. Whatever happens, it's unfortunate to see such a fundamental right of stock ownership as one vote per share become a political football."

The SEC plans to respond to the petition for review after the Roundtable files a more detailed brief, said Daniel Goelzer, SEC general counsel. He said it would likely be a couple months before oral arguments would be heard, assuming the Roundtable pursues the challenge. He noted the SEC's Office of the General Counsel had advised the commission it had the authority to impose the rule.

Several groups, including The United Shareholders Association, a Washington-based group headed by Texas oilman T. Boone Pickens that led the drive to defend one-share, one-vote, and Institutional Shareholder Services, a Washington consulting firm, said they are considering filing

Continued on page 34

$1 billion to small cap

By Curtis Vosti

Small-capitalization stocks, buoyed by returns of more than 13% in the first eight months of the year, have drawn more than $1 billion in new institutional investments this year.

Many more investments were acknowledged, although not enumerated, as pension sponsors said the main reason for their small-cap investments was a desire to increase diversification into what was for many, a new asset class.

The at least $1.2 billion in small-capitalization allocations since the beginning of the year were itemized through interviews and asset allocations reported in *Pensions & Investment Age*. Among the largest moves were:

- a $360 million commitment by the $8 billion Los Angeles County Employees' Retirement Association. The fund could add another $90 million by year's end;
- a $190 million allocation earmarked by the $2.7 billion Fire & Police Pension System — City of Los Angeles; and
- a $100 million investment by the $1.9 billion Board of Pensions of the Presbyterian Church (U.S.A.).

The Los Angeles County fund's move was spurred by an asset allocation study a couple of years ago, according to Administrator Charles Spencer, but the fund didn't get around to investing until this year.

"Purely for diversification," he said of the investments, but he acknowledged the strong performance of small stocks this year encouraged the fund's trustees to make the investments.

The Russell 2000, an index of stocks with between $25 million and $300 million in capitalization tracked by Frank Russell Co., Tacoma, Wash., returned 22.75% for the first eight months of 1988, while the NASDAQ composite index returned 13.9% for the same period.

In comparison, the Standard & Poor's 500 stock index has returned 8.5% through Aug. 31.

The fire and police system ventured into small-cap stocks this year because "it was just its time," said Allan Moore, assistant manager. He said an asset allocation study two years ago recommended the small-cap investment as a new asset category for diversification.

The system's small-cap managers, BMI Capital Corp., New

Continued on page 31

Giant firms prosper as plans grow

By Carol Wiley

The maturing pension fund market might be signaling a trend in the money management industry toward "megamanagers" to whom large pension sponsors give the bulk of their business.

Larger managers apparently have not been hurt by several factors in the past few years that could reduce business and revenue, including the shrinking asset pool from negative cash flow and the reduction in pension fund contributions; the Oct. 19 market crash; performance fees; increased mergers and acquisitions; plan terminations; increased use of indexing; and a trend toward defined contribution plans.

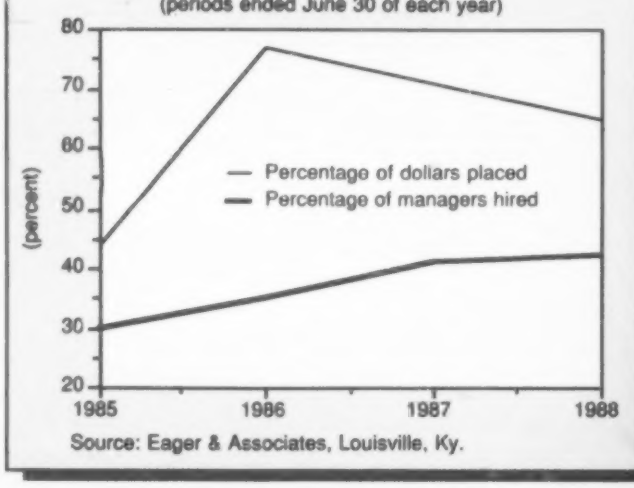
While smaller managers acknowledge this trend, they also believe there will always be a place for them in the investment market because they can provide the personal service on which small pension sponsors depend.

"Within five to seven years, megamanagers will manage very large sums of money for one client and will represent the core of the client's assets," said Ronald Golz, executive vice president of State Street Bank and Trust, Boston, with $30.5 billion under manage-

Continued on page 32

Placement of assets with managers of more than $5 billion

(periods ended June 30 of each year)



Source: Eager & Associates, Louisville, Ky.

PORTFOLIO MANAGEMENT

FEATURE

'Junk' tops indexed stocks

Same risk, more reward

By James L. Sullivan

I am amazed at the amount of "credit risk" being accepted by organizations that invest in stock index funds. They invest with apparent disregard to possible exposure of severe credit deterioration of non-investment-grade issuers in the indexes.

Pension sponsors, endowment funds and other institutions that invest in equity indexes could enjoy the benefits of high-yield, or junk, bond investments without accepting any additional risk exposure.

Actually, high-yield bonds, which are issued by below-investment-grade companies, have less risk than equities issued by some of the same corporations included in indexes, such as Amdahl Corp., Andrew Corp., Pan Am Corp., Prime Computer Inc. and Coleco Industries Inc.

Coleco, for example, which filed for protection under bankruptcy law, was deleted from the Standard & Poor's 500 stock index earlier this year. Bondholders will fair better in a settlement than stockholders.

Obviously, the risk to the stock index investor is not the credit risk that confronts the bond buyer; rather, it is the potential risk of loss over time from market movements. But the comparison of the indexed stocks and their credit risk presents an interesting analogy for investors to contemplate before dismissing junk bonds as an investment.

A recent Standard & Poor's Corp. credit profile of the most widely used equity index — the S&P 500 — reveals:

- 311, or 62%, of the indexed companies have investment-grade ratings;
- 62, or 12%, have below BBB, or below-investment-grade ratings; and
- 127, or 26%, have no rating.

If one assumes half of the 127 non-rated companies would have ratings below investment grade, then a total of 125, or 25%, of the companies in the S&P 500 would have ratings below investment grade.

Such an assumption is reasonable. Fewer than half of all the

Continued on page 14

James L. Sullivan is president of Sullivan Money Management, Houston.

Comparison of junk bond returns to other investment results

	1988[1]	1987	1986	1985	1984	1983	1982	1981	Annual volatility[2]
First Boston junk bond index	9.23%	6.54%	15.63%	24.93%	10.69%	13.91%	36.57%	8.96%	9.79%
Drexel Burnham Lambert junk bond index	10	6.41	18.71	23.54	8.5	19.73	32.48	2.73	NA
Shearson Lehman Hutton corporate bond index	5.61	2.55	16.52	24.05	16.62	9.27	39.2	2.95	11.95
Shearson Lehman Hutton gov't bond index	4.27	2.2	15.31	20.43	14.5	7.39	27.75	9.36	7.9
Standard & Poor's 500 stock index	12.6	5.23	18.6	31.7	6.2	22.6	21.6	5	11.73

[1] First half
[2] Standard deviation of annual returns, excluding 1988
Source: Sullivan Money Management, Houston

Fund to lend again

Oct. 19 market crash halted program

By Barry B. Burr

CHICAGO — After abruptly shutting down the program within days of the Oct. 19 stock market crash over fear of possible losses, Morgan Stanley & Co. is planning to resume securities lending for the $7.86 billion Teamsters, Central States, Southeast & Southwest Areas Pension Fund.

"We're considering going back into it," said Robert M. Warner, the fund's director-financial operations. The fund didn't lose any money in the program.

Morgan Stanley, the fund's named fiduciary, is "actively deciding on re-entering securities lending," he added. Its executives are interviewing agents for the program.

"Mellon Bank is likely to be chosen," Mr. Warner said, the only candidate he identified. "If they aren't, they certainly are well up on the firms being considered." Pittsburgh-based Mellon, the Central States' custodian, ran the securities lending program before it was suspended.

"It was ended very quickly (after Oct. 19), within days," Mr. Warner said. "It was a Morgan Stanley decision. It was directly connected to the Oct. 19 problem."

"In the turmoil that followed Oct. 19, they (Morgan Stanley) called in securities that were out," he added. Mr. Warner said lending agreements allowed Morgan Stanley to require return of securities immediately.

He was unable to give the value of securities outstanding just before the October crash, the type lent in the program or the brokers and other borrowers of the securities.

As of Dec. 31, 1986, the latest available data, Central States had $384.6 million in securities on loan, according to the fund's annual report.

Mr. Warner was unable to say how much the fund earned in the program.

"The reason they moved out of securities lending is because of concern the market might rebound after the crash, and brokers and others who borrowed securities might not be able to cover (their collateral) when we made a call" for more collateral, he said.

Short-sellers borrow securities to sell them, hoping to buy them back later at a lower price to cover their positions and profit from the difference in the sale

Continued on page 14

Stock market reaction to interest rates varies

By Barry B. Burr

Forecasts of losses in the stock market aren't necessarily consistent with a rise in interest rates, according to a new analysis.

The sensitivity of the stock market to interest rate changes isn't always symmetrical, reacting to declines in rates to the same degree it reacts to rises, it notes.

The stock market is less sensitive to rising interest rates than to falling rates, according to the analysis by Eric H. Sorensen, director-quantitative analysis, and Joseph J. Mezrich, vice president, of Salomon Brothers Inc., New York.

"There are periods in which the upward movement in earnings and/or reductions in the market risk premium may offset the negative impact of rising interest rates," they note.

The reason is that besides interest rate changes, other major factors influencing cyclical movement of the stock market are earnings accelerations or decelerations and changes in the risk premium for stocks. The risk premium is the difference in returns between stocks and risk-free securities.

The two executives analyzed quarterly returns of the Standard & Poor's 500 stock index during periods of rising and falling interest rates since 1960. As a proxy for interest rate changes, they used quarterly percentage changes in 20-year Treasury yields in the same period.

They found "the relationship between changes in interest rates and the stock market differs for periods of rising and falling rates."

In particular, they found the relationship diverges around interest rate changes above and below −5%.

"If the quarterly interest rate decline exceeds −5%, the stock market tends to rise by 0.63% for every 1% drop in relative interest rates," they noted.

"For interest rate moves above −5%, the market responds with a 0.34% move for every 1% in-

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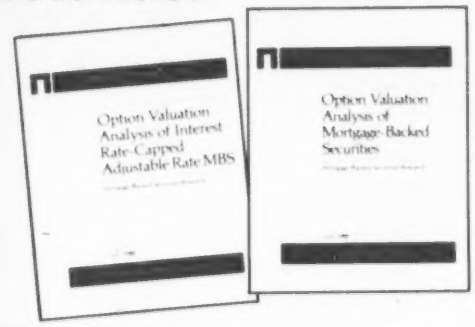
Option Valuation:
The most effective method of evaluating mortgage-backed securities.



Mortgage-backed securities (MBS) have long offered attractive yields to investors. Unfortunately, they also offer substantial exposure to interest rate and prepayment risk.

Given the many variables involved, the most effective method for analyzing the risk and return characteristics of MBS is option valuation analysis. And nowhere have the complexities of option valuation been discussed with as much clarity as in these two reports offered by Kidder, Peabody.

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For copies of these reports, call (212) 510-4590.

KIDDER, PEABODY

'Junk' bonds

Continued from page 13

hundreds of companies whose credits are evaluated have investment-grade ratings. If one assumes the non-rated companies in the S&P 500 are more typical of all the hundreds of companies whose credits are rated, rather than of only the S&P 500-rated companies, then about half of the 127 non-rated companies in the index would have ratings below investment grade.

Going through the same exercise for the Moody's Investors Service Inc.'s ratings of the S&P 500 companies, one finds:

- 284, or 57% of the companies have investment-grade ratings;
- 47, or 9%, have Baa, or below-investment-grade ratings; and
- 169, or 34%, have no rating.

Again, assuming half of the non-rated companies would have below-investment-grade ratings, then a total of 132, or 26%, of the companies in the S&P 500 would have ratings below investment grade.

Investing in the bonds issued by the 25% of the companies in the S&P 500 that have below-investment-grade ratings will involve less risk, as measured by credit risk, than investing in the equities.

The point of this analogy isn't intended as a criticism of stock indexing. But it demonstrates to index investors the investment merit of junk bonds of indexed companies and companies of similar credit standing.

Bond investors enjoy greater cash flow from the high-yield bonds than from the equities and added return of compounding interest. In the event of financial calamity, high-yield bond investors enjoy better credit standing than equity holders. Moreover, the high-yield bond market has outperformed the S&P 500 in recent years.

In the five years ended Dec. 31, high-yield bonds produced a cumulative total return of 176.5%, according to Drexel Burnham Lambert Inc.'s index on a market-value-weighted basis. By comparison, the S&P 500 returned 156.3%. On a compound annual basis, the returns were 12% and 9.3% respectively.

Because of this performance, all pension fund and endowment trustees should give consideration to using high-yield bonds in their investment programs.

For those funds that index, the argument that a pension fund cannot buy such bonds because they are below investment grade simply does not stand up to close examination. Pension funds that index already are accepting greater risk with at least 25% of the assets they have placed in stock indexing.

Trustees who approve of equity indexing establish the prima facie rationale for approving the purchase of respective fixed-income obligations of the same corporations in the index, or of companies of comparable qualities.

Index investors, in other words, ought to invest a part of their portfolios in junk bonds. They would, of course, diversify the rest of their investments among other assets, just as indexers diversify among high- and low-rated companies in the S&P 500.

Investors have gravitated toward indexing for equity performance, for its ease of execution and portfolio monitoring.

Index investors either knowingly or, more likely, unknowingly, have accepted credit risk below investment grade for their assets. They are not being compensated for that risk as they would with high-yield bonds. ■

Interest rates

Continued from page 13

crease in interest rates.

"Thus, on average, when interest rates rise, the stock market is only about half as sensitive as when interest rates fall."

The study shows "the interaction between interest rates and stock prices is not linear across all possible magnitudes of interest rate moves."

"For small and modest rises (up to 10%) in interest rates, there are many quarters in which the stock market not only fails to decline, but actually rises," they say.

For interest rate rises of 5% or less, stock market declines are more rare than stock market rises. For interest rate rises of 5% to 10%, "the stock market declines only half of the time, although the up market returns are limited to very small positive amounts."

The authors attribute the asymmetry to factors not included in their analysis, namely, earnings and risk premium changes.

"When interest rates rise, nominal earnings are more likely to rise than fall," they note.

"The stock market risk premium fell from 1980 to 1988 in tandem with the secular decline in interest rates." A secular movement is long term as opposed to cyclical, short term.

They concluded "a forecast of negative returns for stocks is not necessarily consistent with a rise in interest rates. The data suggest that a 50 basis-point increase in interest rates from current levels will render a stock market rise as likely as a stock market fall." ■

Lender

Continued from page 13

and purchase prices. As in the case of Central States, securities lenders require borrowers to post collateral typically worth slightly more than the market value of the securities on loan. As the securities on loan rise in price, going against the borrowers' position, lenders require the posting of additional collateral.

The Central States fund didn't sustain any losses in the program, Mr. Warner said. "We didn't lose a penny," he said.

"Morgan Stanley said that in this unsettled market, it's not a good time to have securities out on loan."

He noted the suspension of the program had nothing to do with Mellon.

Although Mellon is custodian, Mr. Warner said Morgan Stanley could select a third party for the securities lending. "A third party would have to work with Mellon to make the securities lending arrangement," he added.

He said some of the strengths Morgan Stanley is considering in an agent for the program are: the aggressiveness of its lending; the number and quality of the brokers in the program; the demand among securities borrowers; and the adequacy and control of collateral.

Mr. Warner was unable to say when Morgan Stanley would make a decision on selecting the agent. ■

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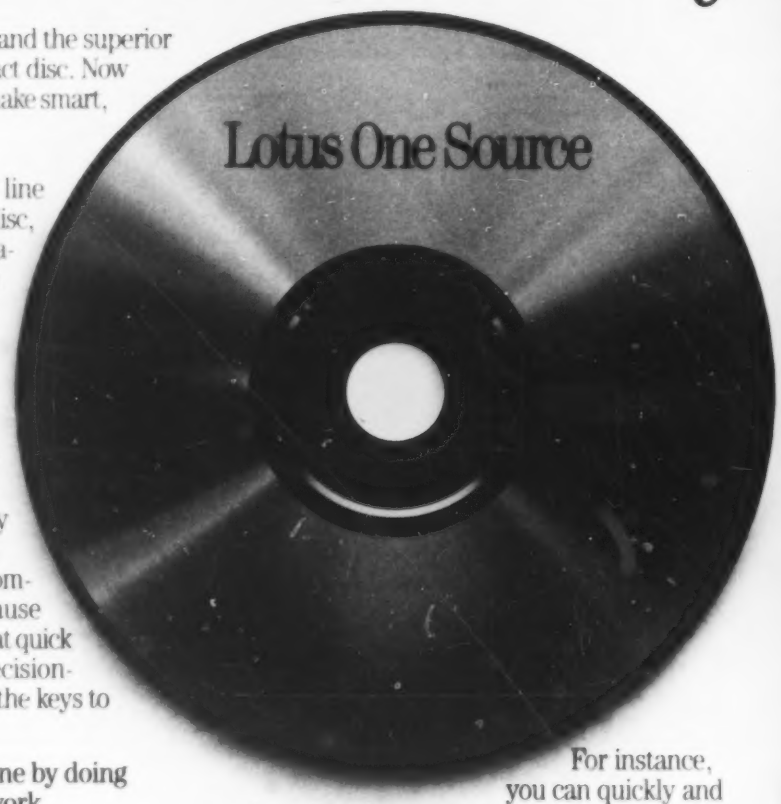

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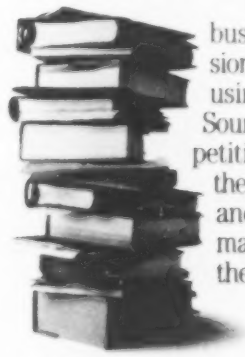

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